

**NATIONAL MOBILE TELECOMMUNICATIONS
COMPANY K.S.C.P. AND SUBSIDIARIES**



**Consolidated Financial Statements and Independent Auditor's Report
for the year ended 31 December 2018**

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of National Mobile Telecommunications Company K.S.C.P. ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("the IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

a) Revenue

There is an inherent risk around the accuracy of revenue recorded due to the complexity of Information Technology ("IT") environment in which billing, rating and other relevant support systems reside; and changes to tariff plans and multiple element contracts with customers, which impact timing and recognition of revenue. Furthermore, the recognition of revenue under the new standard, IFRS 15: Revenue from Contracts with Customers, is complex and requires elements of judgements and estimates. The new standard requires decisions to be made on whether the service is performed point in time or point over time, whether the relationship with counterparties are in the nature of principal or agent etc. Due to these complexities, we have identified the revenue recognition as a key audit matter.

The accounting policies for revenue recognition for the different revenue streams are set out in note 2(c)(ii) to the consolidated financial statements. The total revenue disaggregated by major service lines is disclosed in note 14 to the consolidated financial statements.

Our audit procedures included assessment of the design and operating effectiveness of internal controls over the IT environment in which rating, billing and other relevant support system reside, change control procedures in place around those systems that bill and record material revenue streams. Our audit procedures also included the reconciliation of the revenue generated from online charging system and billing system to the general ledger and the test of details of revenue recorded.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.
(CONTINUED)**

Report on the Audit of Consolidated Financial Statements (Continued)

b) Impairment of goodwill

As at 31 December 2018, the goodwill is carried at KD 150,403 thousand. The impairment test of goodwill performed by the management is significant to our audit as the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the telecom sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill as a key audit matter.

We tested the key assumptions forming the Group's value-in-use calculation including the cash flow projections and discount rate. We have also involved our valuation specialists in these audit procedures. We have assessed the historical accuracy of management's estimates, evaluation and testing the assumptions, methodologies, the discount rate and data used by the Group, for example, by comparing them to external data. We assessed the discount rate, terminal growth rate and the appropriateness of the valuation model used. Additionally, we have analysed the sensitivities such as the impact on the headroom if the growth rate would be decreased or the discount rate would be increased. We also assessed the adequacy of the Group's disclosures included in note 5 of the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive. The Group's policy on assessing impairment of these items is given in note 2(j) of the consolidated financial statements.

Other information included in the Group's 2018 Annual Report

Management is responsible for the other information. Other information comprises the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditors' report thereon.

Prior to the date of this auditor's report, we obtained the Board of Directors' report which forms part of the annual report and the remaining sections of the annual report are expected to be made available to us after that date.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on other information that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.
(CONTINUED)**

Report on the Audit of Consolidated Financial Statements (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


From the matters communicated to Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NATIONAL MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.
(CONTINUED)**

Report on the Audit of Consolidated Financial Statements (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2018 that might have had a material effect on the business of the Company or on its consolidated financial position.



Bader A. Al-Wazzan
License No. 62A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
07 February 2019

Consolidated statement of financial position
as at 31 December 2018

	Note	2018 KD 000's	2017 KD 000's
ASSETS			
Non-current assets			
Property and equipment	4	514,625	563,555
Intangible assets and goodwill	5	312,252	389,381
Investment securities	6	2,653	6,695
Deferred tax asset	7	22,730	22,225
Deferred contract cost and contract assets	9	6,229	-
Other non-current assets		2,318	2,067
		<u>860,807</u>	<u>983,923</u>
Current assets			
Inventories		26,866	26,120
Deferred contract cost and contract assets	9	7,413	-
Trade and other receivables	8	174,317	181,375
Bank balances and cash	10	92,103	128,862
		<u>300,699</u>	<u>336,357</u>
Total assets		<u>1,161,506</u>	<u>1,320,280</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	11	50,403	50,403
Treasury shares	11	(3,598)	(3,598)
Foreign currency translation reserve		(309,192)	(252,364)
Other reserves	11	240,019	239,573
Retained earnings		577,655	578,400
Equity attributable to shareholders of the Company		<u>555,287</u>	<u>612,414</u>
Non-controlling interests		107,219	113,917
Total equity		<u>662,506</u>	<u>726,331</u>
LIABILITIES			
Non-current liabilities			
Long term debts	12	34,037	60,191
Provision for staff indemnity		10,751	9,527
Contract liabilities		1,177	-
Other non-current liabilities		16,177	19,699
		<u>62,142</u>	<u>89,417</u>
Current liabilities			
Trade and other payables	13	275,122	348,622
Deferred income		48,160	57,302
Income tax payable		16,897	22,746
Contract liabilities		3,485	-
Long term debts - current	12	93,194	75,862
		<u>436,858</u>	<u>504,532</u>
Total liabilities		<u>499,000</u>	<u>593,949</u>
Total equity and liabilities		<u>1,161,506</u>	<u>1,320,280</u>

Saud Bin Nasser Al Thani
Chairman

Chairman Office
مكتب الرئيس

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
for the year ended 31 December 2018

	Note	2018 KD 000's	2017 KD 000's
Revenue	14	665,033	697,632
Operating expenses		(296,053)	(290,454)
Selling, general and administrative expenses	15	(168,928)	(169,447)
Finance costs – net	16	(7,336)	(8,501)
Depreciation and amortisation	4 & 5	(137,475)	(145,096)
Other income/(expenses)– net		609	(5,265)
Profit before provision for Directors' remuneration, provision for contribution to Kuwait Foundation for the Advancement of Sciences ("KFAS"), National Labour Support Tax ("NLST"), Zakat and taxation		55,850	78,869
Provision for Directors' remuneration		(656)	(600)
Provision for contribution to KFAS, NLST and Zakat	18	(1,644)	(1,854)
Profit before taxation		53,550	76,415
Taxation related to subsidiaries	7	(18,607)	(24,853)
Profit for the year		34,943	51,562
Attributable to:			
Shareholders of the Company		29,709	39,536
Non-controlling interests		5,234	12,026
		34,943	51,562
Basic and diluted earnings per share (fils)	19	59	79

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	2018	2017
	KD 000's	KD 000's
Profit for the year	34,943	51,562
Other comprehensive income		
<i>Items that will not be reclassified subsequently to consolidated statement of profit or loss</i>		
Effect of net changes in fair value of equity instruments which are carried at fair value through other comprehensive income (note 6)	(1,984)	-
<i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>		
Impairment loss on investment securities transferred to the consolidated statement of profit or loss (note 6)	-	256
Change in fair value of investment securities	-	444
Exchange differences arising on translation of foreign operations and fair value reserve	(64,735)	(41,250)
<i>Total items that are or may be reclassified subsequently to the consolidated statement of profit or loss and items that will not be reclassified subsequently to consolidated statement of profit or loss</i>	(66,719)	(40,550)
Other comprehensive loss for the year	(66,719)	(40,550)
Total comprehensive (loss)/ income for the year	(31,776)	11,012
Attributable to:		
Shareholders of the Company	(29,103)	5,994
Non-controlling interests	(2,673)	5,018
	(31,776)	11,012

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Share capital KD 000's	Treasury shares KD 000's	Foreign currency translation reserve KD 000's	Other reserves KD 000's	Retained earnings (*) KD 000's	Equity attributable to shareholders of the Company KD 000's	Non-controlling interests KD 000's	Total equity KD 000's
Balance at 1st January 2017	50,403	(3,598)	(218,122)	234,674	579,566	642,923	115,236	758,159
Comprehensive income								
Profit for the year	-	-	-	-	39,536	39,536	12,026	51,562
Other comprehensive (loss) / income for the year	-	-	(34,242)	700	-	(33,542)	(7,008)	(40,550)
Total comprehensive (loss) / income for the year	-	-	(34,242)	700	39,536	5,994	5,018	11,012
Transfer to employee association fund	-	-	-	-	(137)	(137)	(46)	(183)
Effect of dilution of ownership interest in a subsidiary	-	-	-	-	6,233	6,233	1,593	7,826
Dividends (note 11)	-	-	-	-	(42,599)	(42,599)	(7,884)	(50,483)
Transfer to voluntary reserve (note 11)	-	-	-	4,199	(4,199)	-	-	-
Balance at 31 December 2017	50,403	(3,598)	(252,364)	239,573	578,400	612,414	113,917	726,331
Balance at 1st January 2018	50,403	(3,598)	(252,364)	239,573	578,400	612,414	113,917	726,331
Impact of IFRS 9 & 15 (note 27 (a))	-	-	-	(771)	8,463	7,692	138	7,830
Restated balance at 1st January 2018	50,403	(3,598)	(252,364)	238,802	586,863	620,106	114,055	734,161
Comprehensive income								
Profit for the year	-	-	-	-	29,709	29,709	5,234	34,943
Other comprehensive loss for the year	-	-	(56,828)	(1,984)	-	(58,812)	(7,907)	(66,719)
Total comprehensive (loss) / income for the year	-	-	(56,828)	(1,984)	29,709	(29,103)	(2,673)	(31,776)
Transfer to employee association fund	-	-	-	-	(140)	(140)	(47)	(187)
Effect of issue of right shares by a subsidiary	-	-	-	-	(495)	(495)	5,228	4,733
Dividends (note 11)	-	-	-	-	(35,081)	(35,081)	(9,344)	(44,425)
Transfer to voluntary reserve (note 11)	-	-	-	3,201	(3,201)	-	-	-
Balance at 31 December 2018	50,403	(3,598)	(309,192)	240,019	577,655	555,287	107,219	662,506

*Includes an amount of KD 7,941 thousand related to legal reserve for one of the subsidiaries, not available for distribution.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2018

	Note	2018 KD 000's	2017 KD 000's
Cash flows:			
Profit for the year		34,943	51,562
<i>Adjustments for:</i>			
Depreciation and amortisation	4 & 5	137,475	145,096
Interest income	16	(1,404)	(2,242)
Dividend income		(3)	-
Impairment loss on investments	6	-	256
Impairment allowance for financial assets	15	9,925	15,958
Taxation relating to subsidiaries	7	18,607	24,853
(Gain)/ loss on disposal and write off of property and equipment and intangibles		(46)	135
Reversal of impairment loss on intangible assets	5	-	(685)
Finance costs	16	8,740	10,743
Provision for KFAS, NLST and Zakat	18	1,644	1,854
Provision for staff indemnity		1,992	1,960
Operating profit before changes in working capital		211,873	249,490
<i>Changes in:</i>			
Trade and other receivables		(6,110)	(56,917)
Contract costs and contract assets		9	-
Other non-current assets		(251)	(766)
Inventories		(620)	(8,027)
Trade and other payables		(65,285)	(24,366)
Deferred Income		(8,756)	13,398
Income tax payable		(26,408)	(15,733)
Contract liabilities		2,492	-
Other non-current liabilities		(3,522)	684
Cash generated from operating activities		103,422	157,763
Payment for staff indemnity		(622)	(1,110)
Net cash generated from operating activities		102,800	156,653
Cash flows from investing activities:			
Decrease/ (increase) in term deposits		36,068	(33,332)
Purchase of property and equipment	4	(85,624)	(68,205)
Proceeds from disposal of property and equipment		2,804	836
Acquisition of intangible assets	5	(3,930)	(6,667)
Dividend income received		3	-
Proceeds from disposal of intangible assets		253	7,826
Interest income received		1,404	2,242
Net cash used in investing activities		(49,022)	(97,300)
Cash flows from financing activities:			
Finance costs paid		(8,740)	(10,743)
Dividends paid		(35,030)	(42,523)
Dividend paid by subsidiary to non-controlling interests		(19,254)	(3,844)
Payment to employee association fund		(187)	(183)
Net decrease in long term debts		(599)	(37,233)
Proceeds from right issue of shares by a subsidiary		4,733	-
Net cash used in financing activities		(59,077)	(94,526)
Effect of foreign currency translation		4,633	146
Net change in cash and cash equivalents		(666)	(35,027)
Transition adjustment on adoption of IFRS 9 (note 27 (b))		(92)	-
Cash and cash equivalents at 1 January		77,934	112,961
Cash and cash equivalents at 31 December	10	77,176	77,934

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements - 31 December 2018

1. Incorporation and activities

National Mobile Telecommunications Company K.S.C.P. (“the Company”) is a Kuwaiti shareholding company incorporated by Amiri Decree on 10 October 1997. The Company and its subsidiaries (together referred to as “the Group”) are engaged in the following:

- Purchase, supply, installation, management and maintenance of wireless sets and equipment, mobile telephone services, pager system and other telecommunication services;
- Import and export of sets, equipment and instruments necessary for the purposes of the Company;
- Purchase or hiring communication lines and facilities necessary for providing the Company’s services in co-ordination with the services provided by the State, but without interference or conflict herewith;
- Purchase of manufacturing concessions directly related to the Company’s services from manufacturers or producing them in Kuwait;
- Introduction or management of other services of similar nature and supplementary to telecommunications services with a view to upgrade such services or rendering them integrated;
- Conduct technical research relating to the Company’s business in order to improve and upgrade the Company’s services in co-operation with competent authorities within Kuwait and abroad;
- Purchase and holding of lands, construction and building of facilities required for achieving the Company’s objectives
- Purchase of all materials and machineries needed to undertake the Company’s activities as well as their maintenance in all possible modern methods;
- Use of financial surplus available at the Company by investing the same in portfolios managed by specialized companies and parties as well as authorizing the board to undertake the same; and
- The Company may have interest or in any way participate with corporate and organizations which practice similar activities or which may assist it in achieving its objectives in Kuwait or abroad. It may acquire such corporates, or make them subsidiary.

The Company operates under a licence from the Ministry of Communications, State of Kuwait and elsewhere through subsidiaries in the Middle East and North Africa region and Maldives. The Company’s shares are listed on the Bursa Kuwait.

The Company is a subsidiary of Ooredoo International Investments L.L.C., (“the Parent Company”), a subsidiary of Ooredoo Q.P.S.C. (“Ooredoo”) (“the Ultimate Parent Company”), which is a Qatari shareholding company listed on the Qatar Exchange.

The address of the Company’s registered office is Ooredoo Tower, Soor Street, Kuwait City, State of Kuwait, P.O. Box 613, Safat 13007, State of Kuwait.

The number of employees of the Company at 31 December 2018 was 482 (2017: 486)

These consolidated financial statements were approved for issue by the Board of Directors of the Company on 7 February 2019 and are subject to the approval of the Annual General Assembly of the shareholders which has the power to amend these consolidated financial statements.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies

a) Basis of preparation

The consolidated financial statements are prepared on a historical cost basis, except for the re-measurement at fair value of investment securities.

These consolidated financial statements are presented in Kuwaiti Dinars ("KD"), which is the Company's functional and presentation currency.

The principal accounting policies have been applied consistently by the Group and are consistent with those used in the previous year, with the exception of new accounting policies as set out in note 2 (c).

b) Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), interpretations issued by the International Financial Reporting Committee of the IASB and the relevant provisions of the Companies Law No. 1 of 2016 and its executive regulations, as amended; and the Company's Memorandum of Incorporation and Articles of Association, as amended; and Ministerial Order No. 18 of 1990.

c) New standards and amendments effective from 1 January 2018

The accounting policies applied are consistent with those used in the previous year except for the changes arising from the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with customers*, effective from 1 January 2018. Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2018 did not have any material impact on the accounting policies, financial position or performance of the Group.

(i) IFRS 9 : Financial Instruments

The Group has adopted IFRS 9 issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. Except for hedge accounting, retrospective application is required but restating comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group's accounting policies on financial instruments resulting from the adoption of IFRS 9 are summarized below.

Recognition/ Derecognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (in whole or in part) is de-recognised when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset. A financial liability is derecognized when the Group's obligation specified in the contract is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (continued)

All financial assets are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as at fair value through profit or loss. Transaction costs on financial assets classified as at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Classification and measurement of financial assets and financial liabilities

Financial Assets

The Group determines classification and measurement category of financial assets, except equity instruments and derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Contractual cash flows assessment

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell the financial instrument, the Group assesses whether the financial instrument's cash flows represent Solely Payments of Principal and Interest ("SPPI").

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example: if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Group reclassifies a financial asset only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent.

2. Basis of preparation and significant accounting policies (continued)

The Group classifies financial assets upon initial recognition of IFRS 9 into the following categories:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit and loss (FVTPL)

Amortised cost (AC)

The Group classifies financial assets at Amortised Cost, if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

Financial assets classified at Amortised Cost are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the consolidated statement of profit or loss. Any gain or loss on derecognition is recognised in consolidated statement of profit or loss.

Fair Value through Other Comprehensive Income (FVOCI)

Debt instruments at FVOCI

The Group classifies debt instruments at FVOCI if it meets both of the following conditions:-

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in consolidated statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of profit or loss.

Equity instruments at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as at FVOCI, if they meet the definition of Equity under IAS 32 Financial Instruments: Presentation, and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Equity instruments at FVOCI are subsequently measured at fair value. Changes in fair values including foreign exchange gains and losses are recognised in OCI. Gains and losses on these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. On derecognition, cumulative gains or losses are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (continued)

Fair Value Through Profit and Loss (FVTPL)

Financial assets whose business model is to acquire and sell, or whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, are classified as FVTPL.

In addition to the above, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the consolidated statement of profit or loss. Interest income and dividends are recognised in the consolidated statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

Financial liabilities

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from Group's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the consolidated statement of profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The Group recognises ECL for financial assets using the general approach except in case of trade receivables from telecom subscribers and contract assets where the Group is using simplified approach.

General approach

IFRS 9 introduces three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

The Group measures loss allowances at an amount equal to 12-month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition, or on exposures that are determined to have a low credit risk at the reporting date. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Stage 2: Lifetime ECL – not credit impaired

The Group measures loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

2. Basis of preparation and significant accounting policies (Continued)

Stage 3: Lifetime ECL – credit impaired.

A financial asset is considered as credit impaired when there is objective evidence that the amount due under the financial asset is uncollectible. The Group considers a financial asset as credit impaired if the amount due under the financial instrument is overdue by more than 90 days, or if it is known that the counter party has any known difficulties in payment, or the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. Lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Life time ECL is ECL that result from all possible default events over the expected life of a financial instrument. The 12 month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12 month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Simplified approach

The Group applies the simplified approach to recognise lifetime expected credit losses for its trade receivables from telecom subscribers and contract assets as permitted by IFRS 9. Accordingly, trade receivables from telecom subscribers and contract assets which are not credit impaired and which do not have significant financing component are categorised under stage 2 and lifetime ECL is recognised.

Trade receivables from telecom subscribers and contract assets have been grouped based on the shared credit risk characteristics and the days past due. The contract assets relate to unbilled customer receivables and have substantially the same risk characteristics as the trade receivables from telecom subscribers for the same type of contracts. The Group has therefore concluded that the expected loss rates for contract assets are a reasonable approximation of the loss rates for the trade receivables from telecom subscribers.

Hedge Accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (continued)

Transition to IFRS 9

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied with effect from 1 January 2018, using the modified retrospective method as described below:

- a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings, non-controlling interest and fair value reserve as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- b) The determination of the business model within which a financial asset is held and the SPPI test for the assessment of contractual cash flows have been made on the basis of the facts and circumstances that existed at the date of initial application.
- c) Certain investments in equity instruments, not held for trading, are designated as at FVOCI.

The Group reported a transition impact of KD 8,299 thousand on its opening retained earnings as at 1 January 2018 on adoption of IFRS 9 in its interim financial information for the nine month period ended 30 September 2018. Subsequently, the Group reassessed the transition impact resulting from IFRS 9 and based on the reassessment, transition impact as of 1 January 2018 was revised from KD 8,299 thousand to KD 1,264 thousand (net of related tax).

The quantitative impact of adoption of IFRS 9 as at 1 January 2018 is disclosed in Note 27 (a).

(ii) IFRS 15 : Revenue from contracts with customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It established a new five-step model that will apply to revenue arising from contracts with customers as follows:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group adopted IFRS 15 with transition date of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the consolidated financial statements as of and for the year ended 31 December 2017.

The Group elected not to restate comparative figures but any adjustments to the carrying amounts of current assets and liabilities at transition date were recognized in the opening balance of Retained Earnings, and Non-controlling interest of the current period.

2. Basis of preparation and significant accounting policies (continued)

The Group's accounting policies on revenue recognition resulting from the adoption of IFRS 15 are summarised below :

The Group principally obtains revenue from providing telecommunication services comprising access charges, airtime usage, messaging, interconnect fee, data services and infrastructure provision, connection fees, equipment sales and other related services.

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good or service to a customer. The good or service is transferred when the customer obtains the control of good or service. The timing of the transfer of control of good or service, at point in time or over time, should be determined to recognise revenue. Accordingly, the specific revenue recognition criteria applied to significant elements of revenue is set out below:

Handsets and telecommunications services

Revenue from mobile telecommunications services provided to postpaid and prepaid customers is recognised as and when services are transferred. If the customer performs first, for example, by prepaying its promised consideration, the Group has a contract liability. If the Group performs first by satisfying a performance obligation, the Group has a contract asset. Consideration received from the sale of prepaid credit is recognised as a contract liability until such time the customer uses the services, when it is recognised as revenue.

The Group may provide handsets to its customers along with the mobile telecommunication services. In such cases, it allocates the contract's transaction price to each performance obligation based on their relative stand-alone selling price. The standalone selling prices are determined based on observable prices.

The Group recognises the revenue from handset as point in time and the related revenue from mobile telecommunication services as point over time. Contract asset on these types of arrangements are recognised when performance obligation are satisfied over time (i.e. a receivable arising from the customer contract that has not yet legally come into existence).

If a customer has the option to pay for the equipment or services over a period, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

Revenue from transit services & other value added services

The Group determines whether it will be acting as a principal or an agent on these types of arrangements and accordingly recognises gross revenue if it is a principal, and net revenue if it is an agent.

Customer loyalty schemes

The Group operates a customer loyalty program that provides a variety of benefits for customers. The Group allocates the consideration received between products and services in a bundle including loyalty points as separate performance obligation based on their stand-alone selling prices.

Connection fees

The Group recognises connection fee charged for the activation of services over the contract period. However, if connection fees relate at or near contract inception to fulfill that contract, then the Group recognises revenue as and when services are provided (i.e. as the identified performance obligations are satisfied).

2. Basis of preparation and significant accounting policies (Continued)

Interconnection and roaming revenue

Revenue from interconnection and roaming services provided to other telecom operators are recognised based on satisfaction of performance obligations and by applying contractual rates net of estimated discounts.

Commissions and other contract costs

Certain incremental costs incurred in acquiring a contract with a customer is deferred on the consolidated statement of financial position and amortised as revenue is recognised under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party dealers and employees.

Intermediaries are given incentives by the Group to acquire new customers and upgrade existing customers. Activation commission and renewal commission paid on post-paid connections are amortized over the period of the contract. However, the Group may choose to expense such commission costs if the amortization period of the resulting asset is one year or less or if it is not significant. In case of prepaid customers, commission costs are expensed when incurred.

Other income

Interest income is recognized on a time proportion basis using the effective yield method and dividend income is recognized when the right to receive payment is established.

Transition to IFRS 15

Changes in accounting policies resulting from the adoption of IFRS 15 are to be applied with effect from 1 January 2018, using the modified retrospective method and accordingly the comparative periods have not been restated. Differences in the carrying amounts of assets and liabilities resulting from the adoption of IFRS 15 are to be recognised in opening retained earnings and non-controlling interest as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 15 and therefore is not comparable. The quantitative impact of adoption of IFRS 15 as at 1 January 2018 is disclosed in Note 27 (a).

Accounting policies for comparatives

Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments and revenue from contracts with customers for comparative periods are as disclosed in the audited consolidated financial statements as of and for the year ended 31 December 2017.

d) Standards issued but not yet effective

Standards issued but not yet effective are listed below. The Group intends to adopt those standards when they become effective:

IFRS 16: Leases

In January 2016, the IASB issued IFRS 16 'Leases' with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a 'right of use' asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (continued)

The Group is continuing to analyse the impact of the changes and its impact will be disclosed in the first interim financial statements as of 31 March 2019 that includes the effects of its application from the effective date.

IFRIC 23 : Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
 - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
 - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

e) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries (note 17).

Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions are also eliminated. Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the net assets (excluding goodwill) of consolidated subsidiaries not attributable directly, or indirectly, to the equity holders of the Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of changes in equity.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

2. Basis of preparation and significant accounting policies (Continued)

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its powers over the entity.

The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a bargain purchase gain is recognised immediately in the consolidated statement of profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in the consolidated statement of profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

Acquisitions of non-controlling interests

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis at fair value. Transactions with non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (Continued)

Foreign currency

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kuwaiti Dinars (KD), which is the Group's presentation currency, rounded off to the nearest thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Kuwaiti Dinar at exchange rates prevailing at the reporting date. Income and expenses for each statements of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in this case income and expenses are translated at the rate on the dates of the transactions).

Foreign currency differences are recognized in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve in the consolidated statement of changes in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant portion of the translation difference is allocated to non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss as part of the gain or loss on disposal.

When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such item are considered to form part of a net investment in the foreign operation and are recognised in the consolidated statement of comprehensive income, and presented in foreign currency translation reserve in the consolidated statement of changes in equity.

f) Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (Continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1-Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2-Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3-Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortized cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

g) Inventories

Inventories are stated at the lower of weighted average cost and net realizable value.

h) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated costs of bringing the asset to a working condition for its intended use and the capitalised borrowing cost.

Depreciation is calculated based on the estimated useful lives of the applicable assets on a straight-line basis commencing when the assets are ready for their intended use.

Property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

The estimated useful lives, residual values and depreciation methods are reviewed at each reporting date, with the effect of any changes in estimate accounted for on prospective basis.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (Continued)

i) Leases

Where the Group is the lessee

Operating leases

Leases of property and equipment under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

Finance leases

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognized as assets in the consolidated statement of financial position at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the liability outstanding.

j) Intangible assets

Identifiable non-monetary assets without physical substance acquired in connection with the business and from which future benefits are expected to flow are treated as intangible assets. Intangible assets consist of telecom license fees paid by the subsidiaries, brand name, customer relationships, concession arrangements, softwares and goodwill arising on the acquisition of subsidiaries. Intangible assets with definite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Cost includes the purchase cost and directly associated costs of being the asset for its intended use.

The telecom license fee, brand name, customer relationships and concession intangible assets are being amortised on a straight-line basis over their useful lives. The estimated useful lives and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment loss is recognised immediately in the consolidated statement of profit or loss and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (Continued)

l) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups at CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in the consolidated statement of profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m) Provision for staff indemnity

The provision for staff indemnity is payable on completion of employment. The provision is calculated in accordance with applicable labour law based on employees' salaries and accumulated periods of service or on the basis of employment contracts, where such contracts provide extra benefits.

With respect to its Kuwaiti employees, the Group makes contributions to Public Institution for Social Security calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. The Group expects this method to produce a reliable approximation of the present value of the obligations.

n) Treasury shares

The cost of the Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

o) Taxation

Certain subsidiaries in foreign jurisdiction are subject to taxes on income. Income tax expense represents the sum of the tax currently payable and deferred tax.

Notes to the Consolidated Financial Statements - 31 December 2018

2. Basis of preparation and significant accounting policies (Continued)

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the financial position date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements of the relevant subsidiaries and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the financial position date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

p) Zakat, KFAS and NLST

Zakat, Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS) and National Labour Support Tax (NLST) represent levies/taxes imposed on the Company at the flat percentage of net profits attributable to the Company less permitted deductions under the prevalent respective fiscal regulations of the State of Kuwait.

Tax / statutory levy	Rate
Contribution to KFAS	1.0% of net profit less permitted deductions
NLST	2.5% of net profit less permitted deductions
Zakat	1.0% of net profit less permitted deductions

q) Contingencies

Contingent assets are not recognized as an asset until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

Notes to the Consolidated Financial Statements - 31 December 2018

3. Critical accounting judgments and key sources of estimation uncertainty

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Identifying performance obligations in a bundled sale of equipment and mobile telecommunications services

The Group provides mobile telecommunications services that are either sold separately or bundled together with the sale of equipment (handsets) to a customer. The Group determined that both the equipment and services are capable of being distinct. The fact that the Group regularly sells both equipment and services on a stand-alone basis indicates that the customer can benefit from both products on their own.

Consequently, the Group allocated a portion of the transaction price to the equipment and the services based on relative stand-alone selling prices.

Principal versus agent considerations

Revenue from value added services (VAS) sharing arrangements; transit services; and customer loyalty schemes depend on the analysis of the facts and circumstances surrounding these transactions. The Group determines whether it is an agent or principal in these contracts based on the below facts, whether:

- The Group is primarily responsible for fulfilling the promise to provide the service.
- The Group has inventory risk.
- The Group has discretion in establishing the price.

Fair values - unquoted equity investments and business combinations

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Contingent liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities or litigation is based on management's judgment.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of non-financial assets and useful lives

The Group's management tests annually whether non-financial assets have suffered impairment in accordance with the accounting policies stated in note 2. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

The Group's management determines the useful lives and the related depreciation and amortisation charge.

The depreciation and amortisation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The cash flows are derived from the budget for the next 10 years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested, but do include the Group's expectation of future capital expenditure necessary to maintain the Group's existing operations. The input factors most sensitive to change are management estimates of future cash flows based on budgets, growth rates and discount rate. Further details on these assumptions are disclosed in note 5 along with the related sensitivities.

Significant increase in credit risk

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

3. Critical accounting judgments and key sources of estimation uncertainty (continued)

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of profit or loss.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Notes to the Consolidated Financial Statements - 31 December 2018

4. Property and equipment

	Land and buildings KD 000's	Exchange and network assets KD 000's	Subscriber apparatus and other equipment KD 000's	Capital work-in progress KD 000's	Total KD 000's
Cost					
Balance at 1 January 2017	63,035	1,056,127	135,798	87,118	1,342,078
Transfers	1,393	52,120	9,928	(63,880)	(439)
Additions	466	62,539	6,128	36,943	106,076
Disposals	(2)	(81,202)	(7,230)	-	(88,434)
Currency translation effects	(1,624)	(45,070)	(3,512)	(3,122)	(53,328)
Balance at 31 December 2017	63,268	1,044,514	141,112	57,059	1,305,953
Transfers	424	34,303	5,623	(39,650)	700
Additions	2,161	34,225	3,053	46,185	85,624
Disposals	(746)	(12,484)	(3,370)	-	(16,600)
Currency translation effects	(1,591)	(55,744)	(4,382)	(2,228)	(63,945)
Balance at 31 December 2018	63,516	1,044,814	142,036	61,366	1,311,732
Accumulated depreciation and impairment					
Balance at 1 January 2017	22,545	580,921	102,467	-	705,933
Transfers	43	(43)	-	-	-
Charge for the year	4,022	99,909	14,039	-	117,970
Related to disposals	(2)	(44,673)	(4,917)	-	(49,592)
Currency translation effects	(1,012)	(27,957)	(2,944)	-	(31,913)
Balance at 31 December 2017	25,596	608,157	108,645	-	742,398
Transfers	-	1,322	(624)	-	698
Charge for the year	4,160	94,411	13,350	-	111,921
Related to disposals	(96)	(10,595)	(3,151)	-	(13,842)
Currency translation effects	(1,089)	(39,027)	(3,952)	-	(44,068)
Balance at 31 December 2018	28,571	654,268	114,268	-	797,107
Carrying amounts:					
At 31 December 2017	37,672	436,357	32,467	57,059	563,555
At 31 December 2018	34,945	390,546	27,768	61,366	514,625
Annual depreciation rates	3%-33%	7%-33%	10%-50%		

Notes to the Consolidated Financial Statements - 31 December 2018

4. Property and equipment (Continued)

Certain assets classified under leasehold land, furniture, fixtures and others amounting to KD 9 thousand (2017: KD 31 thousand) were acquired under finance lease agreements for which the current and non-current portion of the respective obligations is included under trade and other payables ; and non-current liabilities respectively. In addition, the Group is upgrading its networks in several locations for which part of the related assets are included within inventories pending the transfer to capital work in progress.

5. Intangible assets and goodwill

	Goodwill	License and other intangible assets	Brand names	Total
	KD 000's	KD 000's	KD 000's	KD 000's
Cost				
Balance at 1 January 2017	214,747	440,913	10,692	666,352
Transfers	-	439	-	439
Additions	-	6,667	-	6,667
Currency translation effects	(17,027)	(24,043)	(856)	(41,926)
Balance at 31 December 2017	197,720	423,976	9,836	631,532
Transfers	-	(700)	-	(700)
Additions	-	3,930	-	3,930
Disposals	-	(2,293)	-	(2,293)
Currency translation effects	(36,076)	(36,582)	(1,814)	(74,472)
Balance at 31 December 2018	161,644	388,331	8,022	557,997
Accumulated amortisation and impairment				
Balance at 1 January 2017	14,944	203,091	10,692	228,727
Transfers	-	-	-	-
Charge for the year	-	27,126	-	27,126
Reversal of impairment loss	-	(685)	-	(685)
Currency translation effects	(1,188)	(10,973)	(856)	(13,017)
Balance at 31 December 2017	13,756	218,559	9,836	242,151
Transfers	-	(698)	-	(698)
Charge for the year	-	25,554	-	25,554
Disposals	-	(2,040)	-	(2,040)
Currency translation effects	(2,515)	(14,893)	(1,814)	(19,222)
Balance at 31 December 2018	11,241	226,482	8,022	245,745
Carrying amounts				
At 31 December 2017	183,964	205,417	-	389,381
At 31 December 2018	150,403	161,849	-	312,252
Amortisation rate	-	5%-33%	16.67%	

Goodwill of KD 148,476 thousand (2017: 182,037) is allocated to Ooredoo Tunisie S.A. and KD 1,927 thousand (2017: KD 1,927 thousand) to Fast Telecommunications Company W.L.L., which are the Group's cash generating units (CGUs).

Notes to the Consolidated Financial Statements - 31 December 2018

5. Intangible assets and goodwill (Continued)

The recoverable amount of these CGUs was based on its value in use estimated by discounting the future cash flows to be generated from the continuing use of the CGUs.

The key assumptions used in the estimation of value in use were as follows:

	2018 %	2017 %
Discount rate	10%-13%	10.01% -14%
Growth Rate – Ooredoo Tunisie S.A.	5.0%	5.0%
Growth Rate – Fast Telecommunications Company W.L.L.	8.0%	6.0%

The estimated recoverable amounts of Ooredoo Tunisie S.A. and Fast Telecommunications Company W.L.L were more than the respective carrying values.

The Group has also performed a sensitivity analysis by varying these input factors by a reasonable possible margin. Based on such analysis, there are no indications that Goodwill is impaired considering the level of judgements and estimations used.

6. Investment Securities

	2018 KD 000's	2017 KD 000's
Unlisted equity securities	2,653	6,695
	<u>2,653</u>	<u>6,695</u>

Movement in Investment securities is as follows:

	2018 KD 000's	2017 KD 000's
Balance at beginning of the year	6,695	6,250
Impact on adoption of IFRS 9	(2,058)	-
Restated Balance as at 1 January 2018	4,637	6,250
Impairment loss	-	(256)
Fair value changes	(1,984)	700
Foreign exchange difference	-	1
Balance at end of the year	<u>2,653</u>	<u>6,695</u>

At 31 December 2018, investment securities amounting to KD 2,638 thousand (2017: KD 6,682 thousand) are denominated in Kuwaiti Dinars and the remaining in US Dollars.

7. Taxation relating to subsidiaries

The income tax represents amounts recognised by subsidiary companies. The major components of the income tax expense are as follows:

	2018 KD 000's	2017 KD 000's
Current tax		
Current income tax charge	20,559	28,023
Adjustment in respect of previous year income tax	-	437
	20,599	28,460
Deferred tax		
Relating to origination and reversal of temporary differences	(1,952)	(3,607)
Income tax included in the consolidated statement of profit or loss	<u>18,607</u>	<u>24,853</u>

Notes to the Consolidated Financial Statements - 31 December 2018

7. Taxation relating to subsidiaries (continued)

The Company is not subject to income tax in the State of Kuwait. The effective tax rate applicable to the taxable subsidiary companies is 29.97% (2017: 24.84%). For the purpose of determining the taxable results for the year, the accounting profit of the subsidiaries is adjusted for tax purposes. Adjustments for tax purposes included items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices in each subsidiary's jurisdiction. In view of the operations of the Group being subject to various tax jurisdictions and regulations, it is not practical to provide a detailed reconciliation between accounting and taxable profits together with the details of the effective tax rates. As a result, the reconciliation below includes only the identifiable major reconciling items. The reconciliation between tax expense and the product of accounting profit multiplied by the Group's effective tax rate is as follows:

	2018 KD 000's	2017 KD 000's
Profit before taxation in consolidated statement of profit or loss	53,550	76,415
Profit of the Company and its subsidiaries that are not subject to corporate income tax	(4,246)	3,413
Profit of subsidiaries that are subject to corporate income tax	49,304	79,828
Add:		
Allowances, accruals and other temporary differences	14,172	20,362
Expenses and income that are not subject to corporate tax	3,592	13,724
Add:		
Depreciation – net	1,535	674
Unutilised tax gains brought forward	-	-
Taxable profit of subsidiaries that are subject to corporate income tax	68,603	114,588
Current income tax charge at the effective income tax rate of 29.97% (2017: 24.84%)	20,559	28,460
Current income tax charge	20,559	28,460

Deferred tax

The deferred tax asset of KD 22,730 thousand as at 31 December 2018 (2017: KD 22,225 thousand) has been recognised on account of allowances, accruals and other temporary differences in Wataniya Telecom Algerie S.P.A., Ooredoo Maldives Public Limited Company and Ooredoo Tunisie S.A.

Movement in deferred tax asset during the year:

	2018 KD 000's	2017 KD 000's
Opening balance	22,225	19,607
Impact on adoption of IFRS 15 and IFRS 9	(893)	-
Restated opening balance	21,332	19,607
Benefit to the consolidated statement of profit or loss	1,952	3,607
Foreign exchange differences	(554)	(989)
Closing balance	22,730	22,225

8. Trade and other receivables

	2018 KD 000's	2017 KD 000's
Trade and billing receivables	193,160	171,997
Unbilled revenue	5,883	7,282
Advances and prepayments	40,460	52,338
Interest receivable	5	1,149
Other receivables	12,888	22,706
	252,396	255,472
Less: Impairment allowance	(78,079)	(74,097)
	174,317	181,375

Notes to the Consolidated Financial Statements - 31 December 2018

8. Trade and other receivables (continued)

The following table details the risk profile of trade receivables based on the Group's provision risk matrix. The Group classifies customers into different categories based on their credit risk characteristics and the days past due. Accordingly, the threshold for recognizing the credit impairment will vary from past dues of 90 days to 365 days, depending on the category of the customer.

Ageing buckets	31 December 2018			1 January 2018 (Restated)		
	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL	Estimated total gross carrying amount at default	Expected credit loss rate	Lifetime ECL
	KD 000's	%	KD 000's	KD 000's	%	KD 000's
< 30 days	89,470	5.62%	5,029	75,838	12.72%	9,643
31 – 60 days	6,270	15.07%	945	6,945	16.60%	1,153
61 – 90 days	5,576	19.76%	1,102	4,681	28.11%	1,316
> 90 days	97,727	72.65%	71,003	91,815	68.37%	62,787
	199,043		78,079	179,279		74,899

Ageing of unimpaired trade receivables as of 31 December 2017 is as follows:

	Total	Neither past due nor impaired	Past due not impaired			
			< 30 days	30 – 60 days	60 – 90 days	> 90 days
	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's
2017	105,182	55,553	9,121	8,664	7,720	24,124

The estimated fair value of trade receivables at the reporting date is not significantly different from their carrying value.

Movement in the impairment allowance is as follows:

	2018	2017
	KD 000's	KD 000's
Balance at beginning of the year	74,097	60,414
Impact on adoption of IFRS 9	802	-
Restated Balance at 1 January 2018	74,899	60,414
Charge for the year	10,155	15,958
Amounts written off as uncollectible	(484)	(1,516)
Amount of impairment allowance reversed	(4,312)	-
Foreign exchange differences	(2,179)	(759)
Balance at end of the year	78,079	74,097

Notes to the Consolidated Financial Statements - 31 December 2018

9. Deferred contract cost and contract assets

	2018
	KD 000's
Contract assets	5,846
Less: Impairment allowance	(101)
Contract assets (net of impairment allowance)	5,745
Contract cost	7,897
	13,642
Current	6,229
Non-current	7,413

Movement in the impairment allowance is as follows:

	2018
	KD 000's
Impact on adoption of IFRS 9	264
Reversal for the year due to contract assets derecognised	(163)
Balance at end of the year	101

The following table details the risk profile of contract assets balances based on the Group's provision matrix.

	2018
Expected credit loss rate	1.73%
Total gross carrying amount at default (in KD 000's)	5,846
Lifetime ECL	101

10. Bank balances and cash

	2018	2017
	KD 000's	KD 000's
Cash and bank balances	57,522	69,386
Deposits	34,606	59,476
Total Cash and bank balances before impairment allowance	92,128	128,862
Impairment allowance	(25)	-
Bank balances and cash in the consolidated statement of financial position	92,103	128,862
Deposits with original maturities of three months or more	(14,927)	(50,928)
Cash and cash equivalents in the consolidated statement of cash flows	77,176	77,934

The effective interest rate on interest-earning deposits ranged from 0.52 % to 12.52 % (2017: 1.75% to 7.98%) per annum.

Included in deposits with original maturities of three months or more is an amount of KD 7,935 thousand (2017: KD 7,864 thousand) which is restricted in accordance with obligations entered into by a Subsidiary and the Company.

Notes to the Consolidated Financial Statements - 31 December 2018

11. Equity

a) Share capital

The authorised, issued and fully paid up share capital as at 31 December 2018 consists of 504,033 thousand shares (2017: 504,033 thousand shares) of 100 fils each, contributed in cash.

b) Treasury shares

	2018	2017
Number of shares (000's)	2,871	2,871
Percentage of issued shares	0.57%	0.57%
Cost (KD 000's)	3,598	3,598
Market value (KD 000's)	2,050	3,101

c) Statutory reserve

In accordance with the Companies Law and the Company's Articles of Association, as amended, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to a statutory reserve until the reserve exceeds 50% of the paid up share capital. This reserve is not available for distribution except for the amount in excess of 50% of share capital or payment of a dividend of 5% of paid up share capital in years when retained earnings are not sufficient for the payment of such dividends.

The Company has discontinued further transfers to statutory reserve as it has exceeded 50% of the authorised, issued and fully paid up share capital.

d) Voluntary reserve

In accordance with the Company's Articles of Association, 10% of profit for the year attributable to shareholders of the Company before KFAS, NLST, Zakat and Directors' remuneration is required to be transferred to the voluntary reserve until the shareholders decide to discontinue the transfer to the voluntary reserve. During the current year, an amount of KD 3,201 thousand has been transferred to voluntary reserve (2017: KD 4,199 thousand). There are no restrictions on distributions from the voluntary reserve.

e) Proposed dividends

The Board of Directors proposed a cash dividend of 50 fils per share for the year ended 31 December 2018 (2017: 70 fils per share). This proposal is subject to the approval of the shareholders in the Annual General Assembly and has not been accounted for in these consolidated financial statements.

The Annual General Assembly of the Company, held on 7 March 2018, approved the consolidated financial statements of the Group for the year ended 31 December 2017 and the payment of cash dividend of 70 fils per share for the year ended 31 December 2017 (2016: cash dividend of 85 fils per share) to the Company's shareholders existing as at 27 March 2018.

Notes to the Consolidated Financial Statements - 31 December 2018

11. Equity (continued)

f) Other reserves

	Share premium KD 000's	Statutory reserve KD 000's	Voluntary reserve KD 000's	Gain on sale of treasury shares KD 000's	Fair value reserve KD 000's	Other reserves	Total reserves
Balance at 1 January 2017	66,634	32,200	125,688	6,914	(174)	3,412	234,674
Comprehensive income							
Other comprehensive							
loss for the year	-	-	-	-	700	-	700
Transfer to voluntary reserve	-	-	4,199	-	-	-	4,199
Balance at 31 December 2017	66,634	32,200	129,887	6,914	526	3,412	239,573
Balance at 1 January 2018	66,634	32,200	129,887	6,914	526	3,412	239,573
Impact on adoption of IFRS 9 & 15	-	-	-	-	(771)	-	(771)
Restated balance at 1 January 2018	66,634	32,200	129,887	6,914	(245)	3,412	238,802
Other comprehensive							
income for the year	-	-	-	-	(1,984)	-	(1,984)
Transfer to voluntary reserve	-	-	3,201	-	-	-	3,201
Balance at 31 December 2018	66,634	32,200	133,088	6,914	(2,229)	3,412	240,019

12. Long term debts

	Current		Non-current	
	2018	2017	2018	2017
	KD 000's	KD 000's	KD 000's	KD 000's
Due to local banks	57,100	34,575	-	-
Due to local banks related to subsidiaries	36,094	39,748	34,037	49,409
Due to foreign banks	-	1,539	-	10,782
	93,194	75,862	34,037	60,191

The comparative fair value and carrying value of the Group's long term debts are as follow:

	Carrying amounts		Fair values	
	2018	2017	2018	2017
	KD 000's	KD 000's	KD 000's	KD 000's
Fixed rates	21,133	69,514	21,349	69,692
Floating rates	106,098	66,539	107,037	67,144
	127,231	136,053	128,386	136,836

The details of long term debts are as follows:

Description	2018 KD 000's	2017 KD 000's
a) Debts secured against Wataniya Telecom Algeria S.P.A.'s fixed assets from banks in Algeria which are subject to certain financial covenants to be complied over the terms of those debts. These debts carry an effective interest rates of 5.3% per annum (2017: 5.6%). These debts are maturing on September 2019. These are denominated in Algerian Dinar.	20,367	34,901
b) Debts secured against Wataniya Palestine Mobile Telecom Limited's fixed assets from banks in Palestine. These debts carry an effective interest rate of 5.8% (2017: 6.7%) and are repayable in quarterly installments commencing 15 December 2019 and ending July 2024. These are denominated in US Dollar.	15,174	24,310

Notes to the Consolidated Financial Statements - 31 December 2018

12. Long term debts (continued)

<u>Description</u>	<u>2018</u> <u>KD 000's</u>	<u>2017</u> <u>KD 000's</u>
c) Unsecured debts of the Company from banks in Kuwait which are subject to certain financial covenants over the terms of those debts. These debts carry an effective interest rates of 4.3% per annum (2017: 4.7%). These are denominated in Kuwait Dinar.	57,100	34,400
d) Unsecured debts of Ooredoo Tunisie S.A. from banks in Tunisia which are subject to certain financial covenants to be complied on an annual basis. These debts bears an effective interest rate of 8.2% per annum (2017 : 6.9%). The instalments of principal and interest are payable quarterly. The first instalment of principal was paid in September 2014, the first instalment of interest was paid in December 2013. The last instalments of principal and interest are payable on 20 December 2022.	29,599	40,578
e) Secured debts from banks in Maldives against fixed deposits of Ooredoo Maldives PLC. These loans carry an effective interest rate of 7.9% (2017: 4.7%). These debts are repayable within the range of 30-36 monthly instalments respectively with accrued interest. These are denominated in US Dollar.	4,991	1,689
f) Other debts	-	175
	<u>127,231</u>	<u>136,053</u>

13. Trade and other payables

	<u>2018</u> <u>KD 000's</u>	<u>2017</u> <u>KD 000's</u>
Accruals	132,260	170,235
Trade payables	96,469	121,114
Other tax payable	9,998	14,594
Staff payable	10,915	10,919
Dividends payable	6,231	16,089
Other payables	19,249	15,671
	<u>275,122</u>	<u>348,622</u>

The Group has adequate financial risk management policies in place to ensure that all payables are paid within the specified credit time frame (note 23).

14. Revenue

The total revenue disaggregated by major service lines is:

	<u>2018</u> <u>KD 000's</u>	<u>2017</u> <u>KD 000's</u>
Revenue from rendering of telecommunications services	574,208	626,440
Revenue from sale of telecommunications equipment	90,527	67,088
Others	298	4,104
	<u>665,033</u>	<u>697,632</u>

The total revenue disaggregated by primary geographical market and timing of revenue recognition is disclosed in Note 21. Deferred revenue of prior year is mostly recognized in the current year.

15. Selling, general and administration expenses

This includes impairment on financial assets of KD 9,925 thousand (2017: 15,958 thousand).

Notes to the Consolidated Financial Statements - 31 December 2018

16. Finance costs - net

	2018	2017
	KD 000's	KD 000's
Interest income	1,404	2,242
Finance costs	(8,740)	(10,743)
	<u>(7,336)</u>	<u>(8,501)</u>

17. Subsidiaries and non-controlling interests

Significant subsidiaries of the Company are as follows:

Name of subsidiaries	Country of incorporation	Voting capital held 2018	Voting capital held 2017
Wataniya Telecom Algeria S.P.A. (WTA)	Algeria	71%	71%
Wataniya International FZ – L.L.C. (WTI)	U.A.E	100%	100%
Ooredoo Maldives Public Limited Company (WTM) (Previously known as Ooredoo Maldives Private Limited (subsidiary of WTI))	Maldives	90.50%	90.50%
WARF Telecom International Private Limited (WARF) (subsidiary of WTM)	Maldives	65%	65%
Wataniya Palestine Mobile Telecom Limited (WPT) (subsidiary of WTI)	Palestine	49.26%	48.45%
Phono General Trading and Contracting Company WLL (Previously known as Al-Bahar United General Trading and Contracting Company W.L.L.)	Kuwait	99%	99%
Ooredoo Tunisie S.A.	Tunisia	75%	75%
Ooredoo Consortium Limited	Malta	100%	100%
Ooredoo Tunisia Holding Limited	Malta	100%	100%
Fast Telecommunications Company W.L.L.	Kuwait	99%	99%

The following table summarizes the information relating to each of the Group's subsidiaries that has material non-controlling interests (NCI), before any intra-group eliminations:

	WTA	WPT	Ooredoo Tunisie S.A.
31 December 2018	KD'000's	KD'000's	KD'000's
Non-current assets	283,258	61,435	98,051
Current assets	75,761	14,901	38,522
Non-current liabilities	-	(30,023)	(19,737)
Current liabilities	(155,824)	(17,139)	(65,270)
Net assets	203,195	29,174	51,566
Carrying amount of NCI	58,926	14,802	12,892
Revenue	228,930	30,337	126,605
Profit and total comprehensive income	11,933	40	6,948
Profit allocated to NCI	3,461	11	1,737
Cash flows from operating activities	67,312	13,121	31,548
Cash flows used in investing activities	(48,269)	(9,941)	(16,682)
Cash flows from / (used in) financing activities	13,873	(4,946)	(11,556)
Net increase / (decrease) in cash and cash equivalents	32,916	(1,766)	3,310

Notes to the Consolidated Financial Statements - 31 December 2018

17. Subsidiaries and non-controlling interests (continued)

	WTA	WPT	Ooredoo Tunisie S.A.
31 December 2017	KD'000's	KD'000's	KD'000's
Non-current assets	301,426	66,087	132,524
Current assets	130,984	18,733	41,159
Non-current liabilities	(14,663)	(43,104)	(25,753)
Current liabilities	(195,562)	(23,137)	(89,378)
Net assets	222,185	18,579	58,552
Carrying amount of NCI	64,434	9,577	14,638
Revenue	285,146	25,980	127,474
Profit / (loss) and total comprehensive income / (loss)	41,348	(2,012)	3,926
Profit / (loss) allocated to NCI	11,991	(1,037)	982
Cash flows from operating activities	80,526	4,100	45,830
Cash flows used in investing activities	(18,720)	(4,383)	(19,419)
Cash flows from / (used in) financing activities	(74,071)	6,775	(39,844)
Net increase / (decrease) in cash and cash equivalents	(12,265)	6,492	(13,433)

18. Provision for contribution to KFAS, NLST and Zakat

	2018	2017
	KD 000's	KD 000's
KFAS	(321)	(420)
NLST	(1,037)	(875)
Zakat	(286)	(559)
	(1,644)	(1,854)

19. Basic and diluted earnings per share

Earnings per share attributable to shareholders of the Company is computed by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of shares outstanding during the year less treasury shares as follows:

	2018	2017
Profit for the year attributable to shareholders of the Company (KD 000's)	29,709	39,536
Number of shares outstanding		
Weighted average number of paid up shares (000's)	504,033	504,033
Weighted average number of treasury shares (000's)	(2,871)	(2,871)
Weighted average number of outstanding shares (000's)	501,162	501,162
Basic and diluted earnings per share attributable to shareholders of the Company (fils)	59	79

There are no potential dilutive shares as at 31 December 2018 (2017: nil).

Notes to the Consolidated Financial Statements - 31 December 2018

20. Related party transactions and balances

Related parties represent major shareholders, directors and key management personnel of the Group and entities controlled, controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management. Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation and are not disclosed in this note. Balances and transactions with related parties are as follows:

		As at 31 December	
		2018	2017
		KD 000's	KD 000's
a)	Balances included in the consolidated statement of financial position		
	Payable to Ooredoo Group L.L.C – fellow subsidiary	23,656	49,174
	Payable to Ooredoo IP L.L.C – fellow subsidiary	4,655	1,366
	Payable to Ooredoo Oman – fellow subsidiary	17	23
	Receivable from ultimate parent company	349	3,694
	Receivable from Asiacell Communications PJSC - fellow subsidiary	264	-
	Receivable from PT. Indosat Tbk – fellow subsidiary	-	9
		Year ended	
		31 December	
		2018	2017
		KD 000's	KD 000's
b)	Transactions included in the consolidated statement of profit or loss within revenue and operating expenses		
	<u>Revenue from:</u>		
	Ultimate parent company	12,406	14,552
	Asiacell Communications PJSC - fellow subsidiary	127	124
	Omani Qatari Telecommunications Company S.A.O.G. - fellow subsidiary	8	45
	PT. Indosat Tbk – fellow subsidiary	-	33
	<u>Operating expenses to:</u>		
	Ultimate parent company	2,508	2,649
	Asiacell Communications PJSC - fellow subsidiary	16	2
	PT. Indosat Tbk – fellow subsidiary	9	1
	Omani Qatari Telecommunications Company S.A.O.G. - fellow subsidiary	-	6
c)	Transactions included in the consolidated statement of profit or loss within selling, general and administrative expenses		
	Management fees to Ooredoo Group L.L.C – fellow subsidiary	13,626	14,671
	Brand license fees to Ooredoo IP L.L.C - fellow subsidiary	4,074	3,780
d)	Compensation of key management personnel:		
	Short term benefits	7,083	5,993
	Termination benefits	520	531
		7,603	6,524

During the year, the Group has entered into transactions with related parties on terms approved by the management.

21. Operating segments

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Group Chief Financial Officer, in order to allocate resources to the segment and to assess its performance.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without investment revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resources allocation and assessment of segment performance.

For the purpose of monitoring performance and allocating resources between segments:

- Goodwill is allocated to each reportable segment as applicable. There are no assets used jointly by any reportable segment.
- There are no liabilities for which any segment is jointly liable.

Although certain segments do not meet the quantitative thresholds required by IFRS 8, management has concluded that these segments should be reported, as they are closely monitored as a potential growth region and are expected to materially contribute to Group revenue in the future.

The reportable operating segments derive their revenue primarily from telecommunications services.

Notes to the Consolidated Financial Statements - 31 December 2018

21. Operating segments (Continued)

	Inside Kuwait KD 000's	Outside Kuwait					Total KD 000's
		Tunisia KD 000's	Algeria KD 000's	Maldives KD 000's	Others KD 000's	Un-allocated KD 000's	
31 December 2018							
Segment revenues – Point over Time	164,966	118,365	224,932	36,467	29,776	-	574,506
Segment revenues – Point in Time	75,967	8,240	3,998	1,761	561	-	90,527
Segment revenues	240,933	126,605	228,930	38,228	30,337	-	665,033
Profit/(loss)	12,962	6,948	11,933	10,670	(1,033)	(6,537)	34,943
Segment assets	307,852	136,074	337,263	64,201	76,349	214,385	1,136,124
Investments and other assets	2,652	499	21,755	476	-	-	25,382
Total assets	310,504	136,573	359,018	64,677	76,349	214,385	1,161,506
Segment liabilities	122,522	47,391	135,457	19,171	36,477	-	361,018
Debt and other obligations	65,858	29,599	20,368	4,992	17,165	-	137,982
Total liabilities	188,380	76,990	155,825	24,163	53,642	-	499,000
<i>Other information</i>							
Purchase of property and equipment	23,299	13,061	42,511	3,433	3,320	-	85,624
Acquisition of intangible assets	394	443	2,758	237	98	-	3,930
Depreciation and impairment of property and equipment	(29,117)	(24,384)	(50,004)	(4,310)	(4,106)	-	(111,921)
Amortisation of intangible assets	(650)	(3,317)	(10,980)	(837)	(3,233)	(6,537)	(25,554)
Provision for staff indemnity	(1,597)	-	(40)	-	(355)	-	(1,992)

Notes to the Consolidated Financial Statements - 31 December 2018

21. Operating segments (Continued)

	Outside Kuwait						
	Inside						Total
	Kuwait KD 000's	Tunisia KD 000's	Algeria KD 000's	Maldives KD 000's	Others KD 000's	Un-allocated KD 000's	
31 December 2017							
Segment revenues	222,745	127,474	285,146	36,287	25,980	-	697,632
Profit / (loss)	2,177	3,926	41,348	11,425	(2,256)	(5,058)	51,562
Segment assets	289,264	172,948	411,251	63,480	84,845	269,572	1,291,360
Investments and other assets	6,695	736	21,159	330	-	-	28,920
Total assets	295,959	173,684	432,410	63,810	84,845	269,572	1,320,280
Segment liabilities	133,592	48,322	175,324	17,484	73,647	-	448,369
Debt and other obligations	42,187	40,578	34,901	1,689	26,225	-	145,580
Total liabilities	175,779	88,900	210,225	19,173	99,872	-	593,949
<i>Other information</i>							
Impairment loss on investment securities (note 6)	(123)	(133)	-	-	-	-	(256)
Purchase of property and equipment	54,377	15,736	15,071	4,336	16,556	-	106,076
Acquisition of intangible assets	874	1,618	3,836	325	14	-	6,667
Depreciation and impairment of property and equipment	(30,709)	(25,844)	(54,027)	(4,261)	(3,129)	-	(117,970)
Amortisation of intangible assets	(638)	(5,410)	(12,004)	(638)	(3,378)	(5,058)	(27,126)
Provision for staff indemnity	(1,509)	-	(90)	-	(361)	-	(1,960)

Notes to the Consolidated Financial Statements - 31 December 2018

22. Contingencies and Commitments

	2018 KD 000's	2017 KD 000's
a) Capital commitments		
For the acquisition of property and equipment	55,236	60,681
For the acquisition of mobile license in a subsidiary	51,322	48,215
	<u>106,558</u>	<u>108,896</u>

b) **Operating lease commitments**

The Group has a number of operating leases over properties for the erection of communication towers, office facilities and warehouses. The lease expenditure charged to the consolidated statement of profit or loss during the year is disclosed under cost of revenue. The leases typically run for a period ranging from 1 to 5 years, with an option to renew the lease after that date.

Minimum operating lease commitments under these leases are as follows:

	2018 KD 000's	2017 KD 000's
Not later than one year	9,222	8,216
Later than one year but not later than five years	33,426	29,828
Later Than 5 years	954	981
	<u>43,602</u>	<u>39,025</u>
c) Contingent liabilities		
Letters of guarantee	2,490	2,942
Letters of credit	13,325	13,887
Claims against the group	382	-
	<u>16,197</u>	<u>16,829</u>

Litigation and claims :

- A. Additional tax claims amounting to KD 5,006 thousands (including penalties and interests) on Ooredoo Tunisie S.A. for assessment periods 1 January 2013 to 31 December 2015 from tax authorities in Tunisia. Management has responded to this notification and believes that the prospects of these claims being resolved in the Group's favour are good.
- B. Additional tax claims amounting to KD 37,170 thousands on Wataniya Telecom Algeria S.P.A. for assessment periods 1 January 2013 to 31 December 2016 from tax authorities in Algeria. Management has responded to this notification and believes that the prospects of these claim being resolved in the Group's favour are good.
- C. Notice to pay an additional business profit tax of KD 330 thousands and accrued interest thereon amounting to KD 52 thousands on Ooredoo Maldives PLC from the Maldives Inland Revenue Authority ("MIRA") based on the business profit tax audits carried out for the years of 2013, 2014 and 2015. Management has filed an objection against this claim. However, MIRA has not responded to this objection as of the reporting date. Management believes that the prospects of this claim being resolved in the Group's favor are good.
- D. Claims against Ooredoo Maldives PLC amounting to KD 1,312 thousand from the First Instance Civil Court of Maldives citing breach of contract based on a civil case filed by a third party. Ooredoo Maldives PLC has appealed against this claim in the High Court of Maldives in January 2019. Management believes that the prospects of this claim being resolved in the Group's favor are good.

22. Contingencies and Commitments (continued)

- E. A part of the regulatory tariff levied on mobile telecommunication operators in Kuwait by the Ministry of Communications since 26 July 2011 was invalidated by the Kuwait Court of Cassation in April 2017. Accordingly, the Group has contingent assets in the form of recovery of excess regulatory tariff paid. The Group is currently estimating the recoverable amount which is subject to approval of the judicial authorities.

23. Financial instruments and risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies and evaluates financial risks in close co-operation with the Group's operating units.

The Board of Directors provide written principles for overall risk management, and specifically to cover areas, such as foreign exchange risk, interest rate risk, credit risk, use of non-derivative financial instrument, and investment of excess liquidity.

Market risk

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices.

i. Foreign currency exchange risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, MVR Rufiyaa, Tunisian Dinars, Algerian Dinars, UAE Dirham, EURO and GBP.

The Group manages the foreign currency exchange risk by diversifying its exposure to different currency rates. The Group had the following significant net exposures denominated in foreign currencies:

	Net exposure impacting net profit		Net exposure impacting equity	
	2018	2017	2018	2017
	KD 000's	KD 000's	KD 000's	KD 000's
	Equivalent	Equivalent	Equivalent	Equivalent
US Dollar	(40,099)	(155,974)	(17,137)	(25,231)
MVR Rufiyaa	-	-	27,186	29,251
Tunisian Dinar	-	-	(43,666)	(63,410)
Algerian Dinar	-	-	(72,441)	(49,716)
UAE Dirham	-	-	(6,380)	(36,224)
EURO	8,027	1,427	-	-
GBP	(12)	-	-	-

Notes to the Consolidated Financial Statements - 31 December 2018

23. Financial instruments and risk management (Continued)

Foreign currency sensitivity analysis

The Group is maintaining exposure mainly to the US Dollar, MVR Rufiyaa, Tunisian Dinar, Algerian Dinar, UAE Dirham, EURO and GBP. The following table details the Group's sensitivity to a 10% increase in the KD against the other currencies (as a result of a change in the foreign currency) at the year-end due to the assumed change in market rates, with all other variable held constant. A 10 % decrease in the KD against these currencies would have the opposite effect. A positive number indicates increase in equity and a negative number indicates decrease in equity.

	Impact on net profit		Impact on equity	
	2018	2017	2018	2017
	KD 000's	KD 000's	KD 000's	KD 000's
US Dollar	4,010	15,597	1,714	2,523
MVR Rufiyaa	-	-	(2,719)	(2,925)
Tunisian Dinar	-	-	4,367	6,341
Algerian Dinar	-	-	7,244	4,972
UAE Dirham	-	-	638	3,622
EURO	(803)	(143)	-	-
GBP	1	-	-	-

ii. *Interest rate risk management*

Interest rate risk is the risk arising from possible changes in financial instruments that may affect future profitability of the Group.

The Group's interest rate risk arises from term borrowings which are detailed in note 12. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash deposits held at variable rates.

The following table illustrates the sensitivity of the profit as well as equity to a reasonably possible change in interest rates of 1% (2017: 1%). The calculations are based on the Group's financial instruments held at each reporting date. A positive number below indicates an increase in profit and a negative number indicates a decrease in profit.

	Increase	2018	2017
		KD 000's	KD 000's
Impact on profit	+1	(863)	(1,594)

Sensitivity to interest rate movements will be on a symmetric basis.

iii. *Equity price risk*

Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the level of equity indices or the value of individual share prices. Equity price risk arises from the change in fair values of listed equity investments. The Group manages the risk through diversification of investments in terms of industry concentration. The effect of equity price risk on profit for the year of the Group is not significant.

Notes to the Consolidated Financial Statements - 31 December 2018

23. Financial instruments and risk management (Continued)

Credit risk management

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Trade and billing receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

i Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure (gross) to credit risk at the reporting date was:

	Carrying amount	
	2018	2017
	KD 000's	KD 000's
Bank balances	88,346	126,505
Contract assets	5,745	-
Trade and other receivables	120,965	129,037
	<u>215,056</u>	<u>255,542</u>

The maximum exposure to credit risk for financial assets at the reporting date by geographic region was:

	Carrying amount	
	2018	2017
	KD 000's	KD 000's
Kuwait	100,892	72,670
Tunisia	32,264	34,842
Algeria	31,245	92,712
Maldives	37,553	38,627
Palestine	13,092	16,678
Others	10	13
	<u>215,056</u>	<u>255,542</u>

The Group's credit risk bearing assets analysed by the industry sector are as follows:

	2018	2017
	KD 000's	KD 000's
Banks and other financial institutions	88,346	126,505
Others	126,710	129,037
Total	<u>215,056</u>	<u>255,542</u>

Notes to the Consolidated Financial Statements - 31 December 2018

23. Financial instruments and risk management (Continued)

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

The average credit period is 30 days. No interest is charged on the overdue trade and billing receivables.

The table below shows the credit risk exposure by credit quality of financial assets by grade.

31 December 2018	Rated	12-month or Lifetime ECL	Gross carrying amount KD 000's	Impairment allowance KD 000's
Bank balances	Rated	12 month ECL	88,371	25
Trade and other receivables	Not Rated	Lifetime ECL - Simplified approach	199,044	78,079
Contract assets	Not Rated	Lifetime ECL - Simplified approach	5,846	101

All the above financial assets are classified as “financial assets at AC”.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group’s short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by

maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Group finance department. Group treasury department monitors rolling forecasts of the Group’s liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits on any of its borrowing facilities. Such forecasting takes into consideration the Group’s debt financing plans, compliance with internal financial position ratio targets and external regulatory or legal requirements.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. Group treasury invests surplus cash in interest bearing current accounts and time deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient head-room as determined by the above-mentioned forecasts.

Notes to the Consolidated Financial Statements - 31 December 2018

23. Financial instruments and risk management (Continued)

At the reporting date, the Group held short term deposits of KD 19,677 thousand (2017: KD 8,549 thousand) and other liquid assets of KD 178,492 thousand (2017: KD 198,422 thousand) that are expected to readily generate cash inflows for managing liquidity risk. The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities as the impact of discounting is not material.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate
2018	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Trade and other payables	275,122	-	-	-	275,122	
Long term debt	99,597	15,888	20,111	2,327	137,923	5.3%
Other non-current liabilities	-	2,561	13,616	-	16,177	
	<u>374,719</u>	<u>18,449</u>	<u>33,727</u>	<u>2,327</u>	<u>429,222</u>	
Commitments and contingencies						
Acquisition of property and equipment	20,387	26,708	8,141	-	55,236	
Acquisition of Palestinian mobile license	-	-	-	51,322	51,322	
Operating leases	9,222	8,250	25,176	954	43,602	
Letters of credit and guarantee	13,837	989	989	-	15,815	
	<u>43,446</u>	<u>35,947</u>	<u>34,306</u>	<u>52,276</u>	<u>165,975</u>	
2017	KD 000's	KD 000's	KD 000's	KD 000's	KD 000's	%
Financial liabilities						
Trade and other payables	348,622	-	-	-	348,622	
Long term debt	83,637	36,908	28,631	5,678	154,854	5.5%
Other non-current liabilities	-	2,724	16,975	-	19,699	
	<u>432,259</u>	<u>39,632</u>	<u>45,606</u>	<u>5,678</u>	<u>523,175</u>	
Commitments and contingencies						
Acquisition of property and equipment	22,396	29,341	8,944	-	60,681	
Acquisition of Palestinian mobile license	-	-	-	48,215	48,215	
Operating leases	8,216	7,394	22,434	981	39,025	
Letters of credit and guarantee	14,852	989	988	-	16,829	
	<u>45,464</u>	<u>37,724</u>	<u>32,366</u>	<u>49,196</u>	<u>164,750</u>	

Notes to the Consolidated Financial Statements - 31 December 2018

24. Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Group has a set of policies and procedures, which are approved by the board of directors and are applied to identify, assess and supervise operational risk. The Group's management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management.

25. Fair value of financial instruments

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

		2018		
		Level 1	Level 2	Total
		KD 000's	KD 000's	KD 000's
<i>Investment securities</i>				
Unlisted equity securities		-	2,653	2,653
		-	2,653	2,653
		2017		
		Level 1	Level 2	Total
		KD 000's	KD 000's	KD 000's
<i>Investment securities</i>				
Unlisted equity securities		-	4,695	4,695
		-	4,695	4,695

There were no transfers between levels during the years ended 31 December 2018 and 31 December 2017.

26. Capital risk management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group performance in relation to its long range business plan and its long-term profitability objectives.

The Group's objectives for managing capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

Notes to the Consolidated Financial Statements - 31 December 2018

27. (a) **Net Impact of Adopting IFRS 9 and IFRS 15 on Retained earnings and non-controlling interest of the Group:**

Net impact from the adoption of IFRS 9 and IFRS 15 as at 1 January 2018 has increased Retained earnings by KWD 8,463 thousand, decreased the Fair value reserve by KWD 771 thousand and increased the Non-controlling interest by KWD 138 thousand:

Particulars	Retained earnings KWD 000's	Non- controlling interest KWD 000's	Fair value reserve KWD 000's
Balance under IAS 39 and IAS 18 as at 31 December 2017	578,400	113,917	526
<i><u>Impact on re-classification and re-measurements:</u></i>			
i. Investment securities from available for sale to FVOCI	(1,287)	-	(771)
<i><u>Impact on recognition of expected credit losses:</u></i>			
i) Trade and other receivables and contract assets	(241)	(825)	-
ii) Other financial assets	(81)	(11)	-
	(322)	(836)	-
<i><u>Impact on revenue recognition:</u></i>			
i) Customer loyalty programme	315	(43)	-
ii) Connection fees	(614)	(205)	-
iii) Multi element arrangements	5,970	17	-
iv) Any other revenue recognised over the period of time	1,023	421	-
	6,694	190	-
<i><u>Impact on cost recognition:</u></i>			
i) Installation cost, commission to third party dealers, marketing expense	4,623	1,262	-
ii) Handset cost impact	(131)	(14)	-
iii) Any other cost recognised over period of time	(910)	(422)	-
	3,582	826	-
<i><u>Impact on other recognition:</u></i>			
i) Related tax impact on net impact	(204)	(42)	-
Restated balance under IFRS 9 and IFRS 15 on date of initial application of 1 January 2018	586,863	114,055	(245)

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- (b) The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 KD '000	Reclassification and re-measurement KD '000	New carrying amount under IFRS 9 KD '000
Bank balances and cash	Loans and receivables	Amortised cost	128,862	(92)	128,770
Trade and other receivables	Loans and receivables	Amortised cost	181,375	(802)	180,573
Investment securities	Available for sale	FVOCI	6,695	(2,058)	4,637
Contract assets	Loans and receivables	Amortised cost	6,769	(264)	6,505
Total financial assets			323,701	(3,216)	320,485

The financial asset at amortised cost are after reclassification and adjustment arising from the adoption of IFRS 15.

Investment securities classified as Available for Sale (AFS) under IAS 39 represent investments that the Group intended to hold for a long term for strategic purposes. As permitted by IFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI.

- (c) The following table summarizes the impact on the consolidated statement of profit or loss for the year ended 31 December 2018:

	Year ended 31 December 2018			
	KD '000			
	Amounts without adoption of IFRS 15 and IFRS 9	IFRS 15	IFRS 9	As reported
Revenue	667,974	(2,941)	-	665,033
Operating expenses	(295,839)	(214)	-	(296,053)
Selling, general and administration expenses	(169,147)	112	107	(168,928)
Finance costs – net	(7,336)	-	-	(7,336)
Depreciation and amortization	(137,475)	-	-	(137,475)
Other income/ (expenses) – net	609	-	-	609
Profit before provision for Directors' remuneration, contribution to Kuwait Foundation for Advancement of Science ("KFAS"), National Labour Support Tax ("NLST"), Zakat and taxation	58,786	(3,043)	107	55,850
Provision for Directors' remuneration	(656)	-	-	(656)
Provision for contribution to KFAS, NLST and Zakat	(1,644)	-	-	(1,644)
Profit before taxation	56,486	(3,043)	107	53,550
Taxation related to subsidiaries	(18,231)	(376)	-	(18,607)
Profit for the year	38,255	(3,419)	107	34,943

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(d) The following table summarizes the impact on the consolidated statement of financial position as at 31 December 2018:

	KD '000			
	Amounts without IFRS 15 and IFRS 9	IFRS 15	IFRS 9	As Reported
ASSETS				
Non-current assets				
Property and equipment	514,625	-	-	514,625
Intangible assets and goodwill	312,252	-	-	312,252
Investment securities	4,711	-	(2,058)	2,653
Deferred tax asset	23,853	(1,598)	475	22,730
Deferred contract cost and contract assets	-	6,255	(26)	6,229
Other non-current assets	2,318	-	-	2,318
Current assets				
Inventories	26,866	-	-	26,866
Deferred contract cost and contract assets	-	7,488	(75)	7,413
Trade and other receivables	176,082	(1,034)	(731)	174,317
Bank balances and cash	92,128	-	(25)	92,103
Total assets	1,152,835	11,111	(2,440)	1,161,506
EQUITY AND LIABILITIES				
Equity				
Share capital	50,403	-	-	50,403
Treasury shares	(3,598)	-	-	(3,598)
Foreign currency translation reserve	(309,098)	(230)	136	(309,192)
Other reserves	240,790	-	(771)	240,019
Retained earnings	572,914	6,043	(1,302)	577,655
Equity attributable to the shareholders of the Company	551,411	5,813	(1,937)	555,287
Non-controlling interests	106,702	1,020	(503)	107,219
Total equity	658,113	6,833	(2,440)	662,506
LIABILITIES				
Non-current liabilities				
Long term debts	34,037	-	-	34,037
Provision for staff indemnity	10,751	-	-	10,751
Contract liabilities	-	1,177	-	1,177
Other non-current liabilities	16,177	-	-	16,177
Current liabilities				
Trade and other payables	275,122	-	-	275,122
Deferred income	48,544	(384)	-	48,160
Income tax payable	16,897	-	-	16,897
Contract liabilities	-	3,485	-	3,485
Long term debts- current	93,194	-	-	93,194
Total liabilities	494,722	4,278	-	499,000
Total equity and liabilities	1,152,835	11,111	(2,440)	1,161,506

28. Comparative Figures

Certain prior year amounts have been reclassified to conform to current year classification with no effect on net profit or equity.